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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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Labor Demands . . .

The high rate of inflation, the steep recession and declining productivity have made the past year a particularly difficult one for many industries. Although the automobile sector was hit the hardest, many other areas were also adversely affected. As companies in these industries struggled to survive, they laid off hundreds of thousands of workers to reduce labor costs. In an effort to ease the financial burden facing manufacturers while trying to preserve jobs and prevent plant closings, a number of unions made significant—if not unprecedented—concessions. These involve pay cuts, in some cases, while in others, workers were required to produce more at the same pay, and elsewhere, wages were changed from fixed hourly salaries to incentive work—where compensation was directly related to output. Benefits have been reduced, too.

These concessions have not been confined to blue-collar union members alone. White-collar and other nonunion employees have seen their salaries and benefits trimmed. Also, not all agreements took place upon expiration of previous contracts; many were renegotiated in mid-contract. Ostensibly to help employers survive until business improves again, these concessions may have set a precedent that could make it more difficult for unions to win big settlements in the future. They may be the first step toward a weakening of the ever-increasing upward spiral in wage costs, signalling the start of a trend toward more flexible wages. It could be a sign that companies and unions may end their long, adversarial collective-bargaining relationship and turn toward a more cooperative one. Furthermore, since multi-year contracts along with their cost-of-living adjustments—which did not take changes in profitability or productivity into consideration—have been one of the more significant propellants behind the accelerating rate of inflation, this development may lead to a slowdown in the "core" rate of inflation which currently stands at close to 10 per cent.

. . . Sway With Economic Activity

Although the three wage and benefit concession agreements made by the United Auto Workers at Chrysler during the past 18 months—totalling $1.07 billion— have received the most attention lately, many other union workers have also agreed to reductions in pay and various benefits from their ailing employers. Most of them were in the automobile related industries such as tires, rubber and steel. Last week, for example, the United Auto Workers accepted a substantial cut in incentive pay rates at Ford's steel division. Without this concession on the part of labor, Ford would have been forced to lay off 3,760 steel division employees and phase out steelmaking for the commercial market. But companies in such other industries as food, printing, clothing, textiles, airlines and trucking have renegotiated their labor contracts.

Many concessions were granted by workers in the rubber and tire industry which was affected adversely by the slump in automobile sales and less driving by motorists. Here, union contracts had kept wages high for many years, despite declining productivity and sagging demand for new tires. After thousands of workers lost their jobs, the remaining employees settled for a number of adjustments.

Hourly wages were reduced at some plants. At others, cost-of-living adjustments were trimmed, deferred for several years or eliminated. Some employers reduced such benefits as holidays, vacations, medical plans and yearly bonuses. One company rewarded its incentive workers while regularly salaried personnel took pay cuts. At the same time, to utilize its maintenance workers more efficiently, they were required to perform tasks in trades other than those in which they specialized. For example, a plumber agreed to perform some electrical work when needed and vice versa with electricians. Furthermore, the plant was converted to a seven-day operation with no overtime for weekend work. Another tire company decided to combat low productivity by completely converting to piecework compensation instead of hourly rates, while the company promised to keep employment high. As a result, average production per worker increased by 10 per cent within a year while the plants operated at 100 per cent capacity.

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Preserving Jobs . . .

Since the steel industry had one of its worst years ever in 1980, and employment was the lowest since the Great Depression, workers agreed to trim labor costs significantly so that the companies might keep remaining plants in operation. Future wage increases were waived, bonuses forgone, and at one plant incentive workers agreed to a 10-step pay reduction.

These changes were not limited to durable goods industries. A planned closing of one food company's plant was averted when the union agreed to increases in chain speeds on assembly lines. In the publishing field, a 14 per cent wage reduction helped finance the workers' purchase of the magazine's printing firm. This purchase took place after 13 unions involved refused a proposed wage freeze which the company said was necessary to bring its labor costs into line with its competitors.

Just recently, some airline employees received cuts in pay which varied in magnitude between companies. However, a new profit sharing system was established which may enable employees to recoup, at least partially, these losses. If profits rise above a certain level, the possibility exists that these employees could end up with more money than they otherwise would have received.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit	3/4/81		
U.S. Gov'ts and Agencies Owned Outright & RPs	126.394	+ 2.393	+ 3.224
Loans to Depository Inst.	1.299	− .414	− 1.207
Float	2.751	− 2.521	− 1.810
Total Reserve Bank Credit	140.372	− .324	+ 5.509
Treasury Deposits with Federal Reserve Banks	2.682	− .694	+ .024
Currency Outside Banks	118.747	− 1.078	+ 7.973
Member Bank Reserves:			
Required	39.479	+ .277	− 2.988
Excess (Deficiency)	.662	+ .827	+ .131
Total Reserves Held	40.141	+ 1.104	− 2.857
Net Borrowed Reserves	.461	− 1.257	− 1.400
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	97.078	+ 3.101	+19.114

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M-1A	365.7	− 23.5‡	− 2.0‡
M-1B	419.7	+ 2.4‡	+ 7.3‡
M-2 (January '81)	1,681.7	+ 6.2	+ 9.6
L (December '80)	2,373.5	+ 12.1	+ 10.3

†Seasonally adjusted. * Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 3/13/81	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	13.30%	12.66%	12.11%
* Federal Agencies	14.25	14.10	13.54
* Project Notes—Taxfree (46% Taxable Equivalent)	11.48	12.96	12.04
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	14.00	14.00	

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	13.00%	Apr.	14.05%
15- 59 days	14.00	May	13.90
60- 89 days	13.25	Jun.	13.70
90-119 days	13.50	Jul.	13.65
120-179 days	13.00	Aug.	13.55
180-239 days	12.75	Sep.	13.40
240-270 days	12.00		

‡Industrial Paper—Prime		†Federal Funds Effective Rate	14.20%
30- 89 days	14.00%		
90-120 days	14.00		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'80	$ 2,732	$ 2,637	$ 2,496
Gross National Product (1972 Dollars)*	4th Q'80	$ 1,487	$ 1,472	$ 1,491
Percent Change, Annual Rate	4th Q'80	4.0%	2.4%	0.6%
Change in Consumer Prices (all urban consumers)*	Jan '81	8.4%	12.0%	16.8%
Change in Producer Prices*	Feb '81	9.6%	10.8%	15.6%
Civilian Employment (Thousands of Persons)†	Feb '81	97,927	97,696	97,817
Unemployment as % of Civilian Labor Force†	Feb '81	7.3%	7.4%	6.2%
Personal Income*	Jan '81	$ 2,298	$ 2,277	$ 2,077
Leading Indicators Composite Index (1967=100)†	Jan '81	135.8	136.4	134.7
Industrial Production Index (1967=100)†	Jan '81	151.8	150.9	152.7
Net Change in Consumer Installment Credit†	Jan '81	$ 0.87	$ 1.62	$ 2.73
U.S. Merchandise Trade Balance†	Jan '81	−$ 4.37	−$ 2.19	−$ 3.72
Plant and Equipment Expenditures*	1st Q'81	$310.59(a)	$297.30(a)	$291.89
Private Housing Starts (Thousands of Units)*	Jan '81	1,585	1,532	1,389
New Construction Expenditures*	Jan '81	$ 255.6	$ 242.4	$ 259.6
Total Business Inventories†	Jan '81n	$ 461.8	$ 456.8	$ 431.8
Total Business Sales†	Jan '81n	$ 338.7	$ 332.5	$ 312.7

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

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. . . Is The Main Concern

Undoubtedly, many more companies will seek wage concessions from labor in the near future. Both Ford and General Motors have publicly stated that the recent UAW concessions at Chrysler have set the stage for them to request similar "give-backs," since a two- or three-tier wage scale in the industry is unacceptable to Ford and GM as it puts them at a competitive disadvantage.

More and more labor and management negotiating teams are thinking of changing the way they have conducted collective bargaining. Some labor leaders admit that the present system needs improvement, since settlements are based on what the economy is going to be like in the next three years while no one knows what will happen in the next three months. More cooperation between labor and management is needed in order to solve such mutual problems as declining profits, productivity, profit sharing, work rules, length of contracts among others. The UAW union is already represented on the board of directors at Chrysler.

The above-mentioned developments may very well indicate an evolution in labor-management relations toward that of "industrial democracy" practiced in many European countries and Japan, where unions

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (2/25/81)	114,208	– 84	+21,079
New York City (2/25/81)	26,680	– 813	+ 6,608
Commercial Paper (2/25/81)	131,351	– 179	+13,146

Bank Loans

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
	Commercial and Industrial Loans		
Weekly Reporting Large Commercial Banks			
Nationwide (2/25/81)	169,482	– 776	+ 9,505
New York City (2/25/81)	49,377	– 480	+ 2,072
	Total Loans Gross Adjusted		
Nationwide (2/25/81)	423,216	– 2,188	+22,437
New York City (2/25/81)	98,852	– 1,207	+ 8,810

Financial Markets

	Friday 3/13/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	13.83%	– 1.20	– 2.57
180-Day Bills†	13.44	– 1.54	– 3.12
Longest Bills†	13.34	– 1.03	– 2.51
Recent Issues:			
13⅝s 1/31/83	13.63	– .47	
14¼s 8/15/84	13.20	– .65	
13s 11/15/90	12.00	– 1.35	
12¾s 11/15/10	11.50	– 1.40	
Municipals:			
Bond Buyer–20 Bond Index* (3/12/81)	10.34%	– .06	+ 1.26
Blue List Total ($ Million)	$ 770	– $ 31	+ $ 314
30-Day Visible Supply ($ Million)	$2,022	– $ 90	+ $ 624
Total	$2,792	– $121	+ $ 938
Corporates:			
Moody's Aa Composite (3/12/81)	13.91%	– .28	+ .41
Money Mgr.–30-Day Supply ($ Million)	$4,135	+ $583	+ $2,460
Stocks:			
Dow-Jones Averages:			
Industrials	985.77	+ 21.15	+ 174.08
Transportation	420.40	+ 16.67	+ 158.62
Utilities	108.91	+ .80	+ 6.10
65 Stocks	381.90	+ 9.71	+ 87.46
Standard and Poor's 500 Stocks	133.11	+ 3.26	+ 27.68
N.Y.S.E. Composite Index	76.32	+ 1.86	+ 16.25
N.Y.S.E. Avg. Daily Vol. for Week (000's)	54,798	+ 8,138	+ 16,482

* 46% Taxable equivalent 19.15%.

† Bond equivalent.

International Rates

	Friday 3/13/81	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	14.75%	15.94%
1 month	15.13	16.31
3 month	15.13	16.63
6 month	15.25	16.63
1 year	14.88	16.00
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	13.70%	13.80%
Long Term (7 to 15 yrs.)	13.60	13.70

FOREIGN EXCHANGE SPOT RATES

New York Opening (3/13/81)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02887	34.64
Canada	.8365	1.1955
Denmark	.1504	6.6500
France	.2007	4.9825
Germany	.4733	2.1130
Italy	.0009756	1025.00
Japan	.004809	207.95
Mexico	.04227	23.66
Netherlands	.4274	2.3395
Switzerland	.5165	1.9360
U.K.	2.2260	.4492

and management have been working together for years. In Germany, for example, under the highly successful program of co-determination, unions have equal representation on supervisory boards and one-member representation on management boards. Since union delegates have become members of the management team, they have jointly solved not only wage demands, but also the problems of technology and disputes that affect workers and the work place today and in the years ahead.

U.K. Budget Remains Austere

The British government's 1981-82 budget, which was presented to Parliament on March 10, failed to arouse much enthusiasm from the government side of the House of Commons, or from the opposition, for that matter. The government continues to make the fight against inflation its main goal, rather than unemployment, which is what the Labor Party would have liked. But even the parliamentary supporters of the government, not to mention British industry, would have preferred a sharper cut in the minimum lending rate (MLR), than the two per cent proposed in the budget. A cut of three or four per cent had been widely discussed in recent weeks and, indeed, had already been discounted in the financial and foreign exchange markets. British exporters wanted a deeper cut in the MLR to depress the value of the pound to the point where British exports would benefit. The two-point drop in the MLR suggests a more gradual decline in the pound's value this year.

A further source of disappointment in Britain was that overall tax revenues were increased in spite of the fact that a cut in tax rates has been a major tenet of "Thatcherism." Banks were particularly singled out, as a one-time tax on bank profits was imposed. As in the United States, British Social Security deductions were raised. This, along with disappointment over the failure of the government to raise personal deductions, as had been widely expected, will offer no relief to the British taxpayer.

Much of the shape of the budget stems from the inability of the government to control the public sector borrowing requirement (PSBR), that is, the amount over and above revenues which the government must borrow to support central and local government needs as well as the needs of government-owned enterprises. The PSBR for 1980-81 was forecast in early 1980 to be about $19 billion, or close to four per cent of GNP. It is now estimated that the final tally will be close to $30 billion or six per cent of GNP. For 1982 the target is for just over $23 billion (or four per cent of GNP), but this will be attainable only if revenues, hence taxes, are increased.

The money supply has also resisted control, as it has grown far in excess of the Bank of England's target. M3, which the British have used as the principal indicator of money supply growth, rose by about 20 per cent in 1980. The target range was seven to 11 per cent. Between now and April 1982 the target has been set at six to 10 per cent. But this again implies a continuation of tight credit and little, if any, growth. H

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